Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U904G) Regarding Year 17 (2010-2011) of Its Gas Cost Incentive Mechanism.	Application 11-06-017 (Filed June 15, 2011)

DECISION REGARDING YEAR 17 (2010-2011) OF THE SOUTHERN CALIFORNIA GAS COMPANY'S GAS COST INCENTIVE MECHANISM

1. Summary

This decision approves a shareholder reward of $6,222,061 for the Southern California Gas Company's Gas Cost Incentive Mechanism Year 17 performance. The Commission's Division of Ratepayer Advocates confirmed these results and recommends that the Southern California Gas Company's request be granted.

2. Background

The Gas Cost Incentive Mechanism (GCIM) program was originally approved in Decision (D.) 94-03-076.[1] The GCIM program was designed to give utilities market-based incentives to acquire gas at the lowest possible cost and to take on some associated risks. To achieve the GCIM objectives, the Commission allows Southern California Gas Company (SoCalGas) to use a number of cost-saving gas procurement methods such as the physical sale of gas to third

[1] D.97-06-061, D.98-12-057, and D.02-06-023 modified and/or extended the GCIM.

parties and hub transaction activities. Up until GCIM Year 11, financial derivatives were completely included within the GCIM to reduce and effectively manage the cost of gas for core ratepayers. In GCIM Years 12 through 17, SoCalGas performed its winter hedging outside of its GCIM, as authorized in D.05-10-043, and subsequent decisions.[2]

On January 21, 2010 by Decision 10-01-023, the Commission adopted a regulatory treatment that incorporated the utilities' hedging plans with the existing gas procurement incentive mechanism. For SoCalGas, a ratio of 25% of all winter hedging net gains and losses attributable to that winter hedging program shall be included within the GCIM. The remaining 75% of winter hedging gains and losses attributable to the winter hedging program shall be directly allocated to core customers.

The GCIM is a ratemaking incentive mechanism that provides for the measurement of SoCalGas' gas purchasing performance by weighing actual performance against a benchmark cost of gas intended to emulate actual market conditions on a monthly basis. For the most part, the benchmark has been based on southwest gas price indices published in the Natural Gas Intelligence, Inside Federal Energy Regulatory Commission Gas Market Report, and Natural Gas Week publications. These indices reflect a weighted combination of basin and border prices.

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[2] D.05-10-043 approved SoCalGas' and SDGE's petition to allocate all costs and benefits of winter hedging transactions directly to their core gas customers for GCIM Year 12. Subsequent decision D.06-08-027, D.07-06-027, D.08-09-005 and D.09-08-008 approved the continued exclusion of gains and losses from winter hedging transactions for GCIM Year 13 through 16 respectively.

SoCalGas' GCIM provides for a tolerance band, or deadband, around the benchmark cost. The upper limit of the tolerance band is set at two percentage points above the benchmark commodity cost, while the lower limit of the tolerance band is set at one percentage point below the benchmark commodity costs. As provided for in D.02-06-023, when actual costs fall within this tolerance band, any associated benefits or losses accrue 100% to the ratepayers' account.[3] However, when actual costs fall outside of the tolerance band the benefits or losses are shared in different proportions between the shareholders and the ratepayers, depending on whether the actual costs are above the upper limit or below the lower limit of the tolerance band.

In the event that actual gas procurement costs exceed the upper 2% tolerance limit, the excess costs are shared 50-50 between ratepayers and shareholders. If actual costs fall between the lower 1% tolerance limit and the five percentage point band below the benchmark commodity costs, then savings are shared as a 25% reward for shareholders and a 75% savings for ratepayers. If actual costs are less than the benchmark commodity costs by more than five percentage points, savings are shared as a 90% savings for ratepayers and a 10% reward for shareholders. SoCalGas' total reward is capped at 1.5% of commodity benchmark costs.

On June 15, 2011, SoCalGas submitted its seventeenth annual application under the GCIM. As part of its application, SoCalGas reported on the results of its GCIM Year 17 for the 12 months ending March 31, 2011, and requests

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[3] D.02-06-023 at 4.

authority to recover a shareholder incentive reward in the amount of $6,222,061 based on cost savings of $40.9 million below its Year 17 benchmark prices.

On July 20, 2011, the Commission's Division of Ratepayer Advocates (DRA) filed a response to SoCalGas' application. DRA stated that it would confirm the premise underlying SoCalGas' request for a shareholder reward by undertaking a thorough review of SoCalGas' GCIM Year 17 activities. In particular, DRA stated that it would confirm SoCalGas' results after a thorough independent audit and review of the Year 17 GCIM fling.

On November 17, 2011, DRA filed its Monitoring and Evaluation Report of SoCalGas' Gas Cost Incentive Mechanism (Monitoring and Evaluation Report) for GCIM Year 17.[4]

3. GCIM Year 17 Results

In support of SoCalGas' request that the Commission approve a shareholder award of $6,222,061 for its GCIM Year 17 performance, SoCalGas filed an Annual Report for GCIM Year 17. SoCalGas' annual report, which was attached to SoCalGas' application, notes that:

> In GCIM Year 17, California continued to experience a dynamic natural gas market, although not as volatile as in prior years. Despite changing market conditions, SoCalGas' and SDG&E's core customers continued to receive reliable natural gas supplies at below-market costs. These results were achieved with no curtailment of service and in compliance with all requirements and guidelines established by the California Public Utilities Commission.

[4] Exhibit DRA-1.

SoCalGas notes that ratepayers have realized the benefit of gas purchases below the GCIM benchmark in 16 of the past 17 years. (Application (A.) 11-06-017, Attachment A at 1.) SoCalGas reports that in GCIM Year 17, it acquired gas at a total savings of about $40.9 million below the benchmark. Pursuant to the GCIM revisions adopted in D.02-06-023, of this total savings, approximately $34.7 million is the ratepayer's share, and $6,222,061 is the shareholders' share (A.11-06-017, Attachment 1, Table 1).

Pursuant to D.10-01-023, GCIM Year 17 includes 25% gains and losses and transaction costs from Gas Acquisition's winter hedging activities in total actual costs. In addition, 25% of option premiums and related transactions costs incurred in March 2010 (the last month of Year 16), for Year 17 winter hedging activities have also been recognized in this report. Total net costs from GCIM Year 17 winter hedge activities amounted to $4.15 million, of which $1.04 million was included.

DRA's Monitoring and Evaluation Report states it conducted a comprehensive audit of SoCalGas' GCIM Year 17 results. This audit included a review of SoCalGas' recorded Purchased Gas Account cost, an analysis and verification of the GCIM calculations, and an evaluation of the manner in which the program operated during the period.

DRA's evaluation verifies that their recorded gas costs were below the benchmark which resulted in savings for ratepayers. DRA's evaluation of SoCalGas' GCIM performance as of March 31, 2011, resulted in total savings in gas costs of $40,892,159. These savings are based on the difference between the actual costs of gas of $1,709,500,398 and the GCIM benchmark market index of $1,750,392,557, which are to be shared between ratepayers and SoCalGas shareholders. DRA also confirmed that SoCalGas's recorded costs were below the lower tolerance band, which results in a reward of $6,222,194 to SoCalGas's shareholders and a ratepayer benefit of $34,669,965. (DRA Monitoring and Evaluation Report, at 1-1 and 1-7.) Based on the results of its audit, DRA allows that SoCalGas should be authorized to recover a shareholder award of $6,222,194.

After reviewing SoCalGas' application and DRA's Monitoring and Evaluation Report for GCIM Year 17, we find that SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 17. We also find that SoCalGas' calculation of the amount of SoCalGas' shareholder award for GCIM Year 17 is correct.

In accordance with the GCIM modifications adopted in D.02-06-023, SoCalGas is entitled to a shareholder award of $6,222,061 for GCIM Year 17. This amount differs slightly from DRA's estimate; we will use the amount SoCalGas requests. Thus, we will award SoCalGas a shareholder award of $6,222,061 for GCIM Year 17. SoCalGas should be permitted to adjust the Purchase Gas Account to reflect this shareholder award.

4. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

5. Categorization and Need for Hearings

In Resolution (Res.) ALJ 176-3276, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given this status, a public hearing is not necessary and the preliminary determinations made in Res. ALJ 176-3276 are confirmed.

6. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and David M. Gamson is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The GCIM provides an incentive for SoCalGas to purchase gas at or below the benchmark, and savings below the tolerance band are shared with ratepayers and SoCalGas' shareholders according to the sharing band.
2. The GCIM was modified in D.02-06-023, and SoCalGas was authorized to continue the use of the GCIM on an annual basis until modified or terminated by the Commission.
3. SoCalGas acquired gas at a savings of $40.9 million below the GCIM benchmark in GCIM Year 17.
4. DRA's Monitoring and Evaluation Report for GCIM Year 17 verified the approximate amount and SoCalGas' calculation of the shareholder award.
5. SoCalGas reasonably managed its gas acquisitions and operations in GCIM Year 17 within the context of the GCIM that existed at the time.
6. The calculation and amount of SoCalGas' requested shareholder award for GCIM Year 17 are correct.

Conclusions of Law

1. No hearing is necessary.
2. The preliminary determinations made in Res. ALJ 176-3276 should be confirmed.
3. In accordance with the GCIM modifications adopted in D.02-06-023, SoCalGas is entitled to a shareholder award of $6,222,061 for GCIM Year 17.

4. SoCalGas should be awarded a shareholder award of $6,222,061 for GCIM Year 17.

5. SoCalGas should be permitted to adjust the Purchased Gas Account to reflect the shareholder award of $6,222,061.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company is authorized to adjust the Purchased Gas Account to recognize a shareholder award of $6,222,061 under Year 17 of its Gas Cost Incentive Mechanism.

2. Application 11-06-017 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.